

Annual Report

THE KROGER GROCERY & BAKING COMPANY



FOR THE FISCAL YEAR 1945

Ending December 29, 1945

ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY FOR THE YEAR 1945

February 8, 1946

TO THE SHAREHOLDERS:

This report is for the fiscal year 1945, beginning December 31, 1944 and ending December 29, 1945 (52 weeks).

SALES AND PROFITS

Sales for the year were \$457,332,640, as compared with sales for 1944 of \$448,381,416, an increase of 2%. Net income (after provision for Federal taxes on income) for the year was \$5,643,418, or \$3.07 per common share, as compared with net income for the year 1944 of \$5,144,399, or \$2.80 per common share. The provision for Federal taxes on income for the year was \$10,232,408, or \$5.57 per share, as compared with \$9,765,200, or \$5.32 per share, for the previous year. Provision which is believed to be adequate has been made in the accounts for any refunds which may have to be made in the renegotiation of Government contracts.

GOVERNMENT PRICE CONTROL

It is our opinion that the Office of Price Administration has been substantially effective in the control of retail food prices during the recent war period. For this job well done OPA deserves a full measure of credit.

We recognize that some price control in the food field is still necessary and desirable and may well continue to be for some time. Where, and as long as necessary, we favor the retention of price ceilings. However, we do hope that, just as rapidly as the supply situation will permit, there will be an elimination of all such controls and a return to the normal price levels which result from the ordinary operation of the economic law of supply and demand.

INVENTORIES

Our inventories were \$42,867,852 at the close of 1945. This represents an increase of 12.6% over the inventory at the end of 1944, and is comparable to the increased volume of business which was 12% higher in December than for the same period of the previous year. Current inventories consist of salable merchandise only; all war-time substitute items have been sold.

SALE OF MEAT PACKING PLANTS

Your company owned two meat packing plants, located at Columbus, Ohio, and Omaha, Nebraska, at the start of the year. It was necessary to retain them and to acquire an additional plant at Scottsbluff, Nebraska, in May, to assure our customers their fair share of meat during the period of short supply. The end of the war alleviated the supply situation and improved materially the prospect of our securing adequate supplies from outside sources. That development, in addition to the fact that there is a very small margin of profit inherent in the business of slaughtering and processing the quality product required by our stores, caused your officers to recommend the sale of all three plants. The Board of Directors approved this recommendation, and the Omaha and Columbus properties were disposed of in 1945. In these transactions the company realized a net gain over book values, which is included in the item "Non Operating Income" in the Consolidated Statement of Income. In January, 1946, the Scottsbluff plant also was sold.

EXPENDITURES FOR FIXED ASSETS

The depreciation charges during the war years have been materially larger than the expenditures for replacements which it was possible for us to make during those years. But the unexpended balance of depreciation reserve will not suffice to pay for anticipated needs for replacements and additions to equipment. Indeed, it will doubtless be necessary to use the relatively small balance of the earnings that remained after the payment of dividends for replacement, rehabilitation, and additions to our equipment and buildings. Equipment such as ours, especially refrigeration and hauling equipment, rapidly becomes obsolete, and a sizeable sum must be spent just as soon as such

equipment becomes available. To accomplish the most efficient operation, we must be ready to go forward with this program without delay. That is what we are planning and are prepared to do.

RETURN OF VETERANS

During the past few months we have been welcoming back an increasing number of the 7,462 men and women who have been on military leave of absence. Preliminary reports indicate more than 75 per cent of our veterans are returning to Kroger, an unusually high percentage compared with the experience of other companies. Continuing Kroger's war-time policy of maintaining close personal contact with these employees, a reinstatement program designed to make them feel welcome and wanted is in successful operation. In addition, we are providing on-the-job training for our own veterans and those newly employed. It has been possible to offer better jobs, either promotions or higher pay, to virtually all our returning veterans.

PAYMENT OF BANK LOAN

During the year the balance due (\$10,600,000) on the loan made under the revolving bank credit was paid in full. At the end of the year no money was owed to banks. We have ample funds to meet promptly all current needs of the company.

ANTITRUST CASE

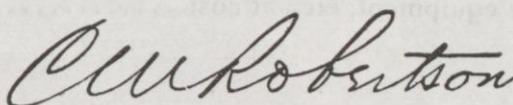
The antitrust indictment against your company is still pending in the District Court of the United States for the District of Kansas. No action occurred in the case during 1945. We do not know when it will be assigned for trial.

OUTLOOK

We face the readjustment period with confidence. Our company has met successfully the many unusual problems and emergencies arising out of the war. The organization has been streamlined with emphasis on selling. Kroger is prepared to meet the challenges of the coming year.

Our directors have been increasingly helpful and cooperative. Our personnel has been loyal, industrious and productive; their outstanding performance is truly reflected by the reported results. To the directors and to all personnel I take this opportunity sincerely to express my gratitude.

Respectfully submitted,



President

CONSOLIDATED BALANCE SHEET

ASSETS

Cash on hand and demand deposits.....	\$19,737,033
Notes and accounts receivable, less allowance for losses.....	2,946,536
Inventories of merchandise, at lower of cost or market.....	42,867,852
Store and general supplies.....	883,902
Prepaid insurance, rent and taxes.....	413,540

TOTAL CURRENT ASSETS

66,848,863

Stocks, bonds, mortgage notes, etc., less allowance for losses.....	94,541
Investment in subsidiary insurance company not consolidated, at cost (Note 1).....	995,500

FIXED ASSETS :

Land and buildings, as appraised as at January 1,
1933, with subsequent additions at cost:

Land..... \$ 1,188,919

Buildings..... \$10,151,911

Machinery and equipment, as appraised as at
January 1, 1933, with subsequent additions at
cost..... 22,350,829

Automotive equipment, etc., at cost..... 4,405,169

36,907,909

Less, allowance for depreciation and
obsolescence..... 23,552,693

13,355,216 14,544,135

Deferred charges to future operations..... 611,984

\$83,095,023

Note 1: The investment in Manufacturers and Merchants Indemnity Company is the entire capital stock of that company other than directors' qualifying shares. The investment, determined in accordance with the rules of the Commissioner of Insurance, so determined, amounted to \$1,670,552, consisting principally of \$1,643,958. Operations of the insurance company for the year 1945 resulted in a net loss of \$26,594 during 1945.

TO THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiaries (for the weeks) then ended, have reviewed the systems of internal control and the accounting procedures of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with the standards of the Institute of Certified Public Accountants.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and expenses for the year ended December 29, 1945, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in the United States of America.

Cincinnati, Ohio,
February 8, 1946.

LIABILITIES

Accounts payable.....	\$11,530,972
Accrued expenses.....	4,284,481
Provision for Federal taxes, current and prior years.....	11,684,319
Dividends payable.....	13,430

TOTAL CURRENT LIABILITIES

27,513,202

Reserves:

For contingencies.....	\$ 2,000,000	
For risks not covered by insurance policies.....	544,299	2,544,299

CAPITAL

Preferred capital stock:

First preferred, 6% par \$100, authorized and issued 507 shares, less 7 shares in treasury, 500 shares outstanding.....	\$50,000	
Second preferred, 7% par \$100, 460 shares authorized and outstanding.....	46,000	96,000

Common capital stock without par value:

Authorized.....3,000,000 shares

Issued and outstanding.....1,836,589 shares..... 33,671,735

Earned surplus, as annexed.....	19,269,787	53,037,522
		<u>\$83,095,023</u>

any, an insurance company licensed under the laws of the State of Ohio, represents
res. At December 31, 1945, the company's equity in the net assets of the insurance
insurance of the State of Ohio, amounted to \$1,021,179. Total assets of the insurance
of cash, U. S. Government securities and other marketable securities aggregating
in a profit of \$13,134. No dividends were declared or paid by the insurance com-

ury companies as at December 29, 1945, and the consolidated statements of income and surplus for the fiscal year (fifty-two
d, without making a detailed audit of the transactions, have examined or tested accounting records of the companies
in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures

and surplus present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at
with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY,
Certified Public Accountants

**CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS) ENDED DECEMBER 29, 1945**

Net sales.....			\$457,332,640
Cost of sales, including warehousing and transportation expenses, excluding depreciation.....			382,626,365
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			74,706,275
Operating, general and administrative expenses, excluding depreciation.....			57,576,987
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Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes...			17,129,288
Depreciation.....			2,032,517
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			15,096,771
Net income of subsidiary companies after depreciation of \$31,916 and provision for Federal taxes on income of \$230,000 (including \$131,000 excess profits taxes).....			179,516
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			15,276,287
Non-operating income, including interest and dividends received, less interest paid.....			369,539
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Income before provision for Federal income taxes.....			15,645,826
Provision for Federal taxes on income (including \$7,573,000 Federal excess profits tax).....			10,002,408
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NET INCOME.....			5,643,418
Earned surplus, December 31, 1944.....			17,305,791
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			22,949,209
Cash dividends paid in the fiscal year ended December 29, 1945:			
First preferred \$6.00 per share.....	\$	3,024	
Second preferred \$7.00 per share.....		3,220	
Common \$2.00 per share.....		3,673,178	3,679,422
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Earned surplus, December 29, 1945.....	\$		19,269,787
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FINANCIAL AND OPERATING STATISTICS

FOR THE FISCAL YEARS 1938 TO 1945, INCLUSIVE

	1938	1939	1940	1941	1942	1943	1944	1945
PROFIT AND DIVIDENDS								
Final Net Profit to Earned Surplus Dollars per Common Share....	2.05	3.02	2.51	2.71	2.53	2.72	2.80	3.07
Total Dollars.....	3,741,569	5,514,597	4,607,126	4,970,102	4,649,484	5,009,228	5,144,399	5,643,418
Cash Dividends Paid—Dollars per Common Share.....	1.90	2.50	2.00	2.00	2.00	2.00	2.00	2.00
STOCK								
Number Shares Common Stock Outstanding with Public—End of Year.....	1,821,989	1,822,734	1,831,889	1,834,589	1,836,589	1,836,589	1,836,589	1,836,589
Number Shareholders — End of Year.....	25,983	25,202	25,681	26,173	26,479	26,827	27,194	27,294
SALES								
Total Sales—Dollars.....	231,295,622	243,356,605	258,115,025	302,765,745	388,847,338	422,427,610	448,381,416	457,332,640
Average Retail Sales—Dollars per Store per Week.....	1,091	1,177	1,278	1,594	2,148	2,566	2,821	3,003
STORES								
In Operation—End of Year.....	3,992	3,958	3,727	3,477	3,174	2,999	2,896	2,730
Average Number Operated During Year.....	4,032	3,943	3,846	3,601	3,348	3,062	2,943	2,808
EMPLOYEES								
Number Full-Time Employees—End of Year.....	20,498	21,691	22,358	22,784	18,567	18,289	18,425	19,389
BALANCE SHEET STATISTICS								
Current Ratio.....	4.49	4.27	3.76	3.92	3.17	3.38	2.91	2.43
Cash and U. S. Government Securities								
Dollars.....	14,889,287	13,032,957	11,507,754	17,963,435	19,495,954	15,234,498	29,495,550	19,737,033
Ratio to Current Liabilities....	1.87	1.51	1.15	1.37	.92	.78	1.18	.72
Inventories—Dollars.....	18,851,393	21,566,958	23,667,892	30,200,939	41,948,687	46,012,694	38,052,582	42,867,852
Fixed Assets—Percent of Total Assets.....	25	30	31	26	21	19	17	18
Net Working Capital—Dollars..	27,801,102	28,227,897	27,615,402	38,168,582	45,746,364	46,646,782	47,680,902	39,335,661

THE KROGER GROCERY & BAKING CO.

Executive Offices: 35 East Seventh Street
CINCINNATI, OHIO



OFFICERS

CHARLES M. ROBERTSON, *President*

JOSEPH B. HALL, *Executive Vice-President and Treasurer*

JOSEPH BAPPERT, *Vice-President*

JOHN H. SADLER,
Secretary and Ass't Treasurer

J. M. MARKLEY, *Assistant Secretary*

JACOB E. DAVIS, *Vice-President*

F. M. GRIEME, *Assistant Treasurer*

R. B. CONANT, *Assistant Treasurer*

T. S. BURNS, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, *Cincinnati*
President, The Mabley and Carew Co.

JOSEPH BAPPERT, *Cincinnati*
Vice-President and General Manager
Retail Division, The Kroger Grocery &
Baking Company

WALTER A. DRAPER, *Cincinnati*
President, The Cincinnati Street Railway
Company

CHARLES W. DUPUIS, *Cincinnati*
President, The Central Trust Company

HARRY J. GILLIGAN, *Cincinnati*
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL, *Cincinnati*
Executive Vice-President and Treasurer
The Kroger Grocery and Baking Company

JOHN M. HANCOCK, *New York*
Partner, Lehman Brothers

CARL M. JACOBS, *Cincinnati*
Partner, Frost & Jacobs

A. T. KEARNEY, *Chicago*
Partner, McKinsey, Kearney & Co.

CHESTER F. KROGER, *Cincinnati*
Proprietor, Clovelly Stock Farm

CHARLES M. ROBERTSON, *Cincinnati*
President,
The Kroger Grocery & Baking Company

STANLEY M. ROWE, *Cincinnati*
Vice-President and Treasurer,
The Shepard Elevator Co.

JOHN H. SADLER, *Cincinnati*
Secretary and Ass't Treasurer,
The Kroger Grocery & Baking Company



TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York